

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 COME-00 TRSE-00 OMB-01 XMB-02  
FRB-03 CIAE-00 INR-07 NSAE-00 L-03 AID-05 /042 W  
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R 011712Z MAR 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 0368  
INFO AMCONSUL OPORTO

C O N F I D E N T I A L LISBON 1635

E.O. 11652: N/A  
TAGS: EINV, PO  
SUBJECT: ITT INVESTMENT IN PORTUGAL - OLIVA

REF: LISBON 561 (NOTAL)

1. EMBASSY, GOP, ITT NEW YORK (STANLEY LUKE) AND OLIVA PORTUGUESA (ADMINISTRATOR BORGES) HAVE HAD SERIES OF CONVERSATIONS REGARDING FEB 25 TELEX FROM OLIVA TO ITT REPORTING CUTOFF OF ALL CREDIT BY PORTUGUESE BANKING SYSTEM TO OLIVA. JOINT LETTER FROM FOUR PORTUGUESE BANKS STATES THEY CANNOT PROVIDE ANY CREDIT UNTIL OLIVA "EXPRESSLY INDICATES, AS URGENTLY AS POSSIBLE, WHETHER ITS SHAREHOLDERS MAINTAIN OR NOT THE PLANS TO INCREASE THE FIRM'S CAPITAL IN APRIL 1977 AS PROJECTED." ACCORDING OLIVA ADMINISTRATOR BORGES, CREDIT OF \$800,000 IS NEEDED TO BUY IMPORTED RAW MATERIALS (CAST IRON AND OTHER METAL FOR FABRICATION). CURRENT STOCK OF MATERIAL EXPECTED TO RUN OUT IN MID-MARCH; ALSO AT THAT TIME CREDIT MAY BE NEEDED FOR SOME SALARIES. BORGES TELEX REQUESTED INSTRUCTIONS FROM ITT (LUKE).

2. LUKE CALLED CHARGE FEB 26 REQUESTING INFORMATION, IN SOMEWHAT AGITATED MANNER, ABOUT SITUATION DESCRIBED IN TELEX. LUKE STATED CONCERN THAT CREDIT CUTOFF IS NEGOTIATING PRESSURE TACTIC AND ALSO NOTED THAT GOP HAS NOT YET  
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PRESENTED ITS RESPONSE (OR COUNTER PROPOSAL) TO LUKE PROPOSAL TO SOARES AND SOUSA GOMES DURING JANUARY 19 MEETING. (DURING THAT MEETING GOP PROMISED RESPONSE WITHIN FIFTEEN DAYS.)

3. CHARGE SPOKE AGAIN WITH LUKE FEB 28. PROVIDED FOLLOWING INFORMATION: BANK OFFICIALS STATE THAT CREDIT CUTOFF

IS PART OF GENERAL BANKING SYSTEM POLICY DICTATED BY BANK OF PORTUGAL IN ORDER TO REDUCE CREDIT TO NON-VIABLE OR STRUCTURALLY (FINANCIALLY) WEAK FIRMS. THEY DID ADMIT, HOWEVER, PAYING SPECIAL ATTENTION TO SITUATION AT OLIVA, IT BEING ITT SUBSIDIARY AND GIVEN RECENT VISIT OF HIGH LEVEL OFFICIAL (LUKE). CHARGE COMMENTED THAT EMBASSY BELIEVES CREDIT CUTOFF IS ESSENTIALLY NORMAL BANKING MEASURE AND IS NOT GOP PRESSURE TACTIC. CHARGE ALSO NOTED THAT THIS MEASURE COULD WORK TO ITT'S BENEFIT IN ITS NEGOTIATIONS. CHARGE STATED EMBASSY WAS IN TOUCH WITH SOUSA GOMES ABOUT GOP RESPONSE AND WOULD CALL ATTENTION TO CREDIT CUTOFF AND FACT IT COULD COMPLICATE NEGOTIATIONS.

4. COMMATT MET PERSONALLY WITH BORGES LATER ON FEBRUARY 28, AND BORGES GAVE COMMATT FURTHER DETAILED INFORMATION (PARA 1 ABOVE) AND ASKED EMBASSY FOR ASSISTANCE IN OBTAINING INSTRUCTIONS FROM LUKE AND HELP IN GETTING CREDIT RESTRICTIONS LIFTED. BORGES SPECIFICALLY SUGGESTED THAT ITT STATEMENT OF INTENTION ABOUT FUTURE OF OLIVA WOULD BE HELPFUL BUT HE REALIZED DIFFICULTY, GIVEN NEGOTIATIONS, OF OBTAINING IT.

5. DURING LATER PASTORINO/LUKE TELECON, LUKE ASKED COMMATT TO INFORM BORGES THAT ITT WOULD NOT RESPOND TO FEB 25 TELEX. FURTHER, LUKE STRESSED HE WAS READY TO COME TO PORTUGAL AS SOON AS HAS GOP RESPONSE. HE NOTED GOP HAS NO EXCUSE FOR DELAYING. COMMATT REITERATED EMBASSY CONTACT WITH SOUSA GOMES OFFICE AND CONFIDENTIAL

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PROMISED INFORM LUKE AS SOON AS MINISTER REPORTS STATUS OF GOP RESPONSE.

6. ECON COUNSELOR SPOKE LATE ON FEB 28 WITH CHIEF OF CABINET OF SOUSA GOMES AND INFORMED HIM THAT ITT ANXIOUS TO RECEIVE GOP RESPONSE. AT SAME TIME EMBOFF NOTED CREDIT CUTOFF AND MENTIONED LUKE CONCERN ABOUT MEASURE. LACK OF GOP RESPONSE HAS ALSO BEEN BROUGHT TO ATTENTION OF FINANCE MINISTER MEDINA CARREIRA. OKUN

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## Message Attributes

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**TAGS:** EINV, PO, ITT  
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**Review Markings:**  
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